

G-010/CI-92-1147 ORDER INITIATING INVESTIGATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an
Investigation into the Gas
Purchasing Practices of Midwest
Gas, a Division of Midwest Power
Systems

ISSUE DATE: October 2, 1992

DOCKET NO. G-010/CI-92-1147

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PROCEDURAL HISTORY

Under Minn. Stat. § 216B.16, subd. 7 (1990) and Minn. Rules, part 7825.2920, Minnesota gas utilities are allowed to make monthly rate adjustments to reflect fluctuations in their gas purchasing costs. They file monthly reports with the Department of Public Service (the Department) on these adjustments, called Purchased Gas Adjustments, and file an annual report with the Department and the Commission. The Department summarizes the monthly reports every three months and files these summaries with the Commission.

In the course of regular Departmental and Commission review of these filings, it became clear that the purchased gas costs of Midwest Gas (the Company) were higher than the purchased gas costs of most other gas utilities. The Company's weighted average cost of gas was substantially higher than the average for Minnesota gas utilities. The Company also relied more heavily than other gas utilities on expensive pipeline gas supply contracts, and less on third-party purchases of market-priced gas.

On September 24, 1992 these issues came before the Commission in conjunction with the Company's August 14, 1992 general rate case filing. The Department recommended a separate investigation of the Company's gas purchasing practices, stating gas purchasing issues were too complex to be investigated effectively in the course of the general rate case. The Company concurred.

FINDINGS AND CONCLUSIONS

The Commission finds that Midwest Gas's Purchased Gas Adjustment filings demonstrate a need to investigate the Company's gas purchasing practices. The Company's high weighted average cost of gas and heavy reliance on pipeline supply contracts are not typical and do increase the Company's rates. The Commission has a responsibility to ensure that all gas utilities are purchasing gas supplies on the most economical basis consistent with reliability, and will therefore initiate an investigation.

At the same time, the Commission does not discount the possibility that Midwest Gas's purchasing practices are entirely proper. The Company states that its customer base is heavily residential, its interruptible load very small, and its need for reliability extremely high. It may be that this combination of factors does limit the Company's ability to use less reliable, less expensive third-party supplies effectively.

The Commission agrees with the Department and the Company that making this investigation part of the rate case, which is subject to a ten-month statutory deadline, would unnecessarily complicate that proceeding and jeopardize the parties' ability to adequately develop gas purchasing issues. The Commission will therefore initiate a separate investigation, which will begin with a formal report and recommendations from the Department. The Commission will establish a reply comment period and any further procedural requirements after that report has been filed.

ORDER

1. The Department of Public Service shall investigate the prudence of the gas purchasing practices of Midwest Gas Company and shall file a report and recommendations with the Commission.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)